

## CDBG FUNDED ECONOMIC DEVELOPMENT PROGRAM FACT SHEET

- I. **Introduction:** Tennessee has available Small Cities Community Development Block Grant (CDBG) funds for an economic development loan and grant program. These funds are awarded for infrastructure grants and building or capital equipment loans to assist industrial manufacturing companies in locating and expanding operations in Tennessee and providing Tennesseans with jobs. Only basic-type economic activities will be supported. These are businesses which export more than half of their products or services outside of Tennessee, generating income that supports the growth of the non-basic sector (retail, local services, etc.). Manufacturing is the classic basic economic activity, but businesses other than manufacturing will be considered if they can meet the test for a basic economic activity.
- II. **Application Requirements:** Applications are reviewed on a first-come, first-serve basis and need not be submitted on any particular date. Applications can only be submitted by a local government. Applications submitted must be complete. Incomplete applications will be returned to the applicant community with a copy of the transmittal letter to the company and the application preparer. Once the complete application is received, it will be reviewed as a new application and will not assume its former position in the order of review. Current staff workload is such that complete applications will require at least sixty days to review and recommend for funding. Start-ups will usually take approximately one month longer to review and make recommendations. Contact with the Office of Program Management loan staff should be made at the earliest possible time.
- III. **Guidelines for Evaluating and Selecting Economic Development Projects:** The following guideline objectives have been established for evaluating and selecting economic development projects. With the exception of the first guideline objective (low and moderate income job creation) which is mandatory, the state will not base a determination of eligibility of the use of CDBG funds for economic development solely on the basis that the project fails to achieve one or more of the guidelines' objectives. CDBG assistance will not be limited to business for which no other forms of assistance are available, nor those that could not be accomplished but for that assistance. Eligibility will be determined by the state based on general conformance with the guideline objectives.
  - A. Economic development projects assisted with CDBG funds must create jobs. The creation of private investment without the creation of jobs will not qualify a project for CDBG assistance. Of the jobs created, 51 percent must go to individuals who, prior to employment in the assisted business, were classified as having low or moderate income.
  - B. The project costs of activities assisted with CDBG funds must be reasonable. Reasonableness may be determined by competitive bidding, including the use of Davis-Bacon wage rates. Reasonableness may also be determined by industry standards. The state will retain the final determination of reasonableness which will be based on cost comparison with recently funded similar projects.
  - C. To the extent practicable, reasonable financial support must be committed for project activities from non-federal sources prior to the disbursement of federal funds.

- D. To the extent practicable, any grant funds to be provided for project activities must not substantially reduce the amount of non-federal financial support for the activities.
  - E. Project activities must be financially feasible. Non-CDBG funds in a project must be sufficient to complete the project as proposed. When an infrastructure grant is involved, the assisted business must demonstrate a high expectation of success and long-term employment of low and moderate income individuals. When a building or equipment loan is involved, the business must demonstrate a high expectation of success and repayment of the federal funds.
  - F. To the extent practicable, project activities assisted with CDBG funds must not provide more than a reasonable return on investment to the owner. The reasonableness of return on investment will take into consideration industry standards such as those contained in the RMA Annual Statement Studies. Projects which, as a result of the CDBG assistance, will have an unreasonably high return on investment may not be considered for assistance.
  - G. To the extent practicable, grant amounts used for the costs of project activities will be disbursed on a pro-rata basis with the amounts of other sources.
  - H. The public benefit provided by the project activities must be appropriate relative to the amount of assistance provided by grant funds. In determining appropriateness, the state will consider such factors as the number of jobs being created, the number of jobs being created for low and moderate income individuals, unemployment rates, income levels, poverty rates, recent plant closing, reliance on declining industries, isolation from centers of population and inadequate transportation facilities, and labor force characteristics. HUD's threshold test of public benefit regardless of location is the creation or retention of at least one full-time equivalent permanent job per \$35,000 of CDBG funds used. Tennessee's test of public benefit is somewhat more stringent. Generally, Tennessee grants create one job for each \$7,500, and rarely exceed one job per \$12,000.
- IV. **Infrastructure Grants:** Grants are also available for necessary infrastructure for new and expanding industries. The local community will be required to put in a local match based on the Ability-to-Pay Index for all infrastructure projects. Three Star Communities will have additional benefit in utilizing this aspect on the program. Level I, Level II and Level III communities' Ability-to-Pay percentages will be reduced in Cities (-1%, -2% and -3%) and in Counties (-3%, -4% and -5%) – *[Please see attachment of Three Star Incentives]*. Grants must have direct public, as well as private benefit. Communities should not apply for infrastructure grants for small dollar amounts to help existing industries expand except in very unusual cases. Sewage pre-treatment facilities for a specific industry will be funded as a loan to the business. For infrastructure grants the industry must be the primary beneficiary and must benefit at least 51% LMI persons. An assessment must be done to identify all potential future users, during the first year, and special rules will apply if the cost per job as identified in the assessment is over \$9,999.

## V. Building/Equipment Loans

**Risks:** Every project has certain risks associated with it. We want to know that you recognize and are prepared for them. We want to make good loans, and we want you to understand the requirements that are associated with the program. We will make every effort to assist you in understanding and complying with these requirements. Please feel free to contact a member of the Loan Program Staff at (615) 741-6201 for assistance.

**Loan Repayments:** Loans are not grants, and the state expects CDBG loans to be repaid based on the repayment schedule included in the loan documents. Loans which are not repaid on the agreed upon schedule, will be subject to foreclosure and any other legal action to ensure full payment of the amount owed.

**Security Position:** The state expects to receive collateral which is adequate to protect the CDBG loan. This may include a security interest in the asset or assets being financed, a security interest in other assets, and the personal guarantee(s) of the owner or owners of the company. There is an 80% loan to collateral value or better requirement for economic development loans.

**Interest Rates:** Interest rates have been established which fluctuate as the prime rate fluctuates. The prime rate will be established quarterly on the first day of the following months: January, April, July and October as quoted in the Wall Street Journal. The base prime rate will be for the quarter in which the loan is awarded (closed). Once the base prime rate is established, it will be in effect for the life of the loan. The only adjustments to the loan's interest rate will be the adjustment made every five years, but this will not change the base rate set at the time the loan was awarded, only the points below the set prime rate (see the table below).

PROVISION	ECONOMICALLY DISTRESSED COUNTIES	OTHER COUNTIES
Maximum Loan/Grant	\$ 750,000	\$ 500,000
Maximum Term on Building	20 Years	15 Years
Maximum Term on Equipment	7 Years	7 Years
Minimum Interest Rate		
Years 1-5	5 PBP	3 PBP
Years 6-10	4 PBP	2 PBP
Years 11-20	3 PBP	1 PBP

**NOTE:** In no case shall the effective rate of interest charged on CDBG loans be less than 1 percent.  
The base prime rate for the life of the loan is established when the loan is awarded (closed).

**Loan Terms and Funding Limits:** The maximum loan or grant any community/company can receive is \$500,000, except for Economically Distressed Counties, which can receive up to \$750,000. Three Star Communities will have additional benefit on the level of participation based on the Level I, Level II and Level III status. In Cities the Loan funding opportunity is increased to (\$550,000, \$575,000, and \$600,000) and in the Counties (\$600,000, \$625,000, and \$650,000)-[Please see *attachment of Three Star Incentives*]. The amount of financing is negotiated with the company and is usually less than the maximum amounts available depending on the location of the project and is subject to an 80% loan to value. The maximum term of a loan for equipment is 7 years for any county (see table in Section III). Equipment loans are limited to new equipment with a purchase price greater than \$1000 per individual piece and used equipment with a qualified independent appraisal of \$500 or more per individual piece of equipment. Special economic development incentives are being provided for counties which are designated as Economically Distressed Counties [Please see *attached map and listing of current Economically Distressed Counties*]. We are increasing the loan amount limits, extending the term for industrial buildings, and reducing the interest rates in Economically Distressed Counties. Counties eligible for these loan provisions are those that have had average annual unemployment rates in excess of 200% of the state's three year average, less than 50% of the current Tennessee per capita market income or have a poverty rate in excess of 200% of the state average..

- VI. **Other Federal Requirements:** Federal environmental review requirements cannot be waived. These requirements can take over 50 days and no project costs can be incurred prior to the end of the environmental review period. This means no equipment can be ordered, no building construction can begin, no dirt can be moved, and no commitments can be made related to the project for which CDBG funds are to be requested. If such costs are incurred prior to the end of the environmental review period, the costs will be ineligible for CDBG reimbursement. Davis-Bacon Act wage rates also apply to all projects where CDBG funds will be used for construction. Also, if equipment purchased with CDBG funds has substantial installation costs, Davis-Bacon may be required for installation labor costs. These wage rates, known as the Federal Prevailing Wage, are requested through a Request for Determination and Response to Request form (Form 308, which is included in the application package). Companies receiving CDBG funds must comply with Federal Equal Opportunity Laws which prohibit discrimination in hiring. Finally, under Federal statute, a minimum 51% of the employees hired by the company must be persons from low and moderate income families prior to being hired. The low and moderate income figures are by Federal definition for each household. Companies and communities must keep records documenting the LMI persons hired and benefits to minorities and have them available for audit purposes. The community must perform a fair housing activity for every CDBG project funded and Title VI requirements must be followed.

VII. **Start-ups:** Applicants for start-up funding must have 20 percent equity and 30 percent of project financing must come from private sources. Any start-up applicant must have not only adequate working capital based on reasonable project success, but the potential for a second line of working capital should business conditions require it. Keep in mind that applications for start-up businesses will take approximately one month longer than other applications to review and make recommendations.

VIII. **General Information:** Standard loan underwriting procedures are followed and personal guarantees will be required from major stockholders and spouses of privately held companies. We will also require that financial statements from *existing* companies be CPA reviewed. Companies applying for CDBG loan assistance must demonstrate their ability to ensure loan repayment. The state will determine the adequacy of public benefit by comparing the amount of loan funds requested, the number of jobs being generated, and the economic conditions in the county in which the loan will be made.

IX. **Pre-Application Meeting:** A pre-application meeting is required for all economic development projects. This is to provide advice and give companies and communities the opportunity to ask questions. If we can understand the project before the application is prepared, we can better advise you about the proper source of funding to request. Also, this meeting will give us the opportunity to explain the Federal regulations that will apply, discuss timetables, and address concerns that frequently come up during the application review. We recommend that the following individuals attend the pre-application meeting:

County or City Mayor  
Industrial Recruiter or Industrial Board Representative  
Company Officials  
Application Preparer  
Engineer (for infrastructure projects)

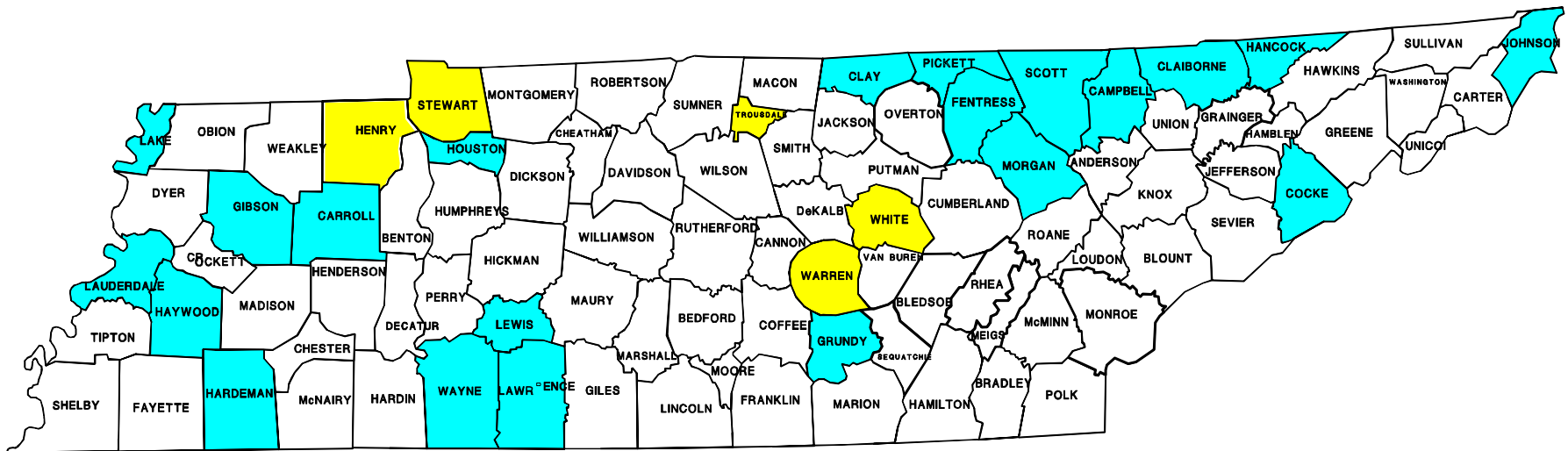
Please contact Philip Trauernicht or Jeff Bolton at (615) 741-6201 to arrange a meeting.

X. **Loan/Grant Committee:** Funding decisions on infrastructure grants and building and equipment loans are made by the Department of Economic and Community Development's Loan/Grant Committee. This Committee is composed of the Commissioner, Deputy Commissioner, and all Assistant Commissioners. Applications are reviewed by staff, and a written evaluation and recommendation for action are presented to the Committee. Applications may be approved, disapproved, or deferred pending the receipt of additional information which may be requested from the applicant or company.

Applications are available on the ECD web-site: [www.state.tn.us/ecd](http://www.state.tn.us/ecd)

Program Management  
State of TN-Economic and Community Development  
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# ECONOMIC STATUS OF TENNESSEE



**ECONOMICALLY DISTRESSED COUNTIES:** The 10 most disadvantaged counties in each of the following categories: 3 year average unemployment, per capita market income, or poverty rate.



**COMMISSIONER'S DISCRETION:** Any county not otherwise designated which exhibits substantial characteristics of economic distress such as major loss of employment, recent high unemployment rates, traditionally low levels of family incomes, high levels of poverty, and high concentrations of employment in declining industries.



## Economically Distressed Counties Effective July 1, 2005

Campbell	Fentress	Haywood	Lawrence	Stewart
Carroll	Gibson	Houston	Lewis	Trousdale
Claiborne	Grundy	Johnson	Morgan	Warren
Clay	Hancock	Lake	Pickett	Wayne
Cocke	Hardeman	Lauderdale	Scott	White

July 1, 2005